



Legislative Audit Division

State of Montana

Report to the Legislature

September 1996

Limited Scope Review

Medicaid Partnership Plan

Drug Delivery System for Montana Medicaid Program

Department of Public Health & Human Services

This report discusses department procedures for averting costs in the acquisition and delivery of drugs.

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LIMITED SCOPE REVIEW

This limited scope study was a joint project performed by performance audit staff to look for cost savings opportunities in the state's Medicaid system. This review also utilized technical support from federal audit personnel made available through the Medicaid Partnership Plan.

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Members of the audit staff involved in this audit were Angie Grove and Jim Pellegrini.

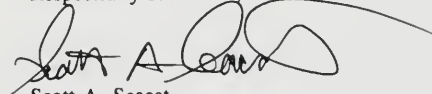
June 1996

The Legislative Audit Committee
of the Montana State Legislature:

This is our limited scope review of the Department of Public Health and Human Services drug delivery system for the Medicaid program. The report identifies steps the department has taken to contain costs in this program. The department's written response is included beginning on page 11.

I would like to thank the department director and his staff, as well as the staff at the Employees Benefit Bureau at the Department of Administration, for their assistance and cooperation during our review.

Respectfully submitted,



Scott A. Seacat
Legislative Auditor

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Appointed and Administrative Officials

Department of Public Health & Human Services	Peter Blouke, Director
	Nancy Ellery, Administrator, Medicaid Services Division
	Mary Dalton, Chief, Primary Care Bureau

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Drug Delivery System for Montana Medicaid Program

Introduction

We performed a limited scope review of Montana's Medicaid delivery system for the pharmacy program. The Medicaid program is administered by the Department of Public Health and Human Services.

Objectives

Our primary objectives were to:

1. Identify the department's procedures to achieve cost savings for in the acquisition and delivery of drugs.
2. Determine if a mail order delivery system would be more cost effective.

We conducted this review in cooperation with federal auditors who provided technical support to us under the Medicaid Partnership Plan. The Partnership Plan outlines suggested federal and state joint audits of the Medicaid program which have saved money in other states.

Scope

The scope of this review was limited to reviewing the department's Medicaid pharmacy program expenditures and the procedures used to deliver drugs to recipients. We compared the delivery system used for the current Medicaid pharmacy program to other state pharmacy drug delivery systems. We did not review all expenditures for pharmacy supplies, nor did we review transactions to the extent necessary to identify unnecessary costs or methods used by the department to acquire drugs. We did not examine the efficiency of current procedures. Our review was conducted in accordance with applicable Government Audit Standards.

Background

The Medicaid program, administered under federal regulations, serves persons who qualify for financial and medical assistance. This program is administered by the Medicaid Services Bureau within the Department of Public Health and Human Services. The program mission is to ensure that Montana's low-income residents

Drug Delivery System for Montana Medicaid Program

have access to medical care at a cost which is equitable to both the provider of the service and to the taxpayer.

Program funding includes general fund, state special revenue, and federal funds. State special revenue is property tax revenue from the 12 state-assumed counties, nursing home bed taxes, and donations. County funds supply part of the state match for primary care Medicaid benefits.

Program expenditures for the pharmacy program were approximately \$25 million in state fiscal year 1993-94 and \$27 million in state fiscal year 1994-95. Drug benefits are one of the fastest growing components of primary medical care. Reimbursement for covered drugs under the Montana Medicaid Program is the lessor of:

- The providers usual and customary charge.
- The estimated acquisition cost (plus a dispensing fee).
- A maximum allowable amount based on a defined cost limit. (plus a dispensing fee.)

Current Delivery System

The current delivery system used by Medicaid operates through local pharmacies across the state. To address the rising costs in this area, the department has developed several different programs with various controls in place to avert costs. These include Point of Sale System, Due Care Program, Drug Formulary Program, and the Manufacturer Rebates Program.

Point of Sale System

The Point of Sale System is an on-line computer system for Medicaid pharmacy providers which provides timely Medicaid eligibility confirmation, notifies if prior authorization is required and provides an electronic system to submit claims. This program is administered through a contract with a private company.

The point of sale system promotes the use of generic or cheaper brand name drugs by indicating price differences on-line as a prescription is entered. In some cases, generics are mandated and the system also communicates this. Potential drug interactions are also noted. A large majority of the pharmacies in Montana currently subscribe to this system. On-line edits within the system provide

Drug Delivery System for Montana Medicaid Program

prospective drug utilization reviews to promote program compliance.

The department pays 29¢ per prescription for this service. The department expended approximately \$290,000 for this program in the past year. Drug costs were contained by various prescription changes identified through the program. For example, 628 prescriptions were reversed due to drug interaction alerts highlighted. Another 1,711 prescriptions were reversed due to excessive duration alerts. Projected reduction in prescription costs were \$308,701 in calendar year 1995.

Due Care Program

The purpose of this program is to identify patient profiles which demonstrate a potential for health risks due to prescribed drugs. Noted trends or problem areas are then communicated to health care providers to promote more informed decision making. Areas tracked may include drug conflicts, underuse or overuse of medications, likelihood of adverse outcomes, and relative risk of hospitalization. This program is provided jointly by two contracted entities: a peer-review organization and a pharmaceutical care and research group. Contract amounts for a two year period are \$317,265 and \$200,456, respectively.

Program outcome information is provided to the Due Care Board. (This board also serves as the Medicaid Formulary Oversight Committee, which is discussed later in this report.) The Due Care Board includes three pharmacists, three physicians, and one additional pharmacist who serves as a liaison between the board, the department, and industry. The board functions as an advisory group to the department. Approximately 250 recipient profiles are reviewed each month by the board. Six months after review, each profile is re-evaluated and an actual cost savings is computed for each case. Based on reviews completed in federal fiscal year 1994, the department saved \$270,053 in program costs.

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Drug Formulary Program

A formulary is a listing of products eligible for coverage under a particular reimbursement program. Prior to the application of the Montana Medicaid formulary, the formulary for Montana was considered open. Very few products were excluded or were limited in coverage. Formularies are established for various reasons, including to define coverage for those drugs which provide therapeutically sound treatment while maintaining costs. An efficiently managed formulary is a method for reducing Medicaid pharmacy program costs.

The University of Montana - Missoula, School of Pharmacy and Allied Health Sciences, perform research on individual drugs and therapeutic classes of drugs to recommend inclusion or exclusion from the Montana Medicaid formulary. The department contracted with the University for the amount of \$78,522 for this service. The School bases its determinations on a drug's labeling or related medical literature. Drugs recommended for exclusion are found to have no significant advantage in terms of safety or effectiveness over other drugs evaluated and recommended for inclusion in the Montana Medicaid formulary.

The Medicaid Formulary Oversight Committee is responsible for reviewing recommendations made by the University and submitting final recommendations to the department for inclusion or exclusion in the Montana Medicaid formulary. As noted on page 3, this committee includes pharmacists and physicians. Committee costs are approximately \$5,000 annually. This committee is responsible for ensuring compliance with federal mandates. Final recommendations are incorporated into the Point of Sale system to ensure notification to participating pharmacies and promote program compliance. Due to the additional controls and compliance reviews offered through the use of this program, the department estimated expenditures were reduced by approximately \$400,000 annually. This savings is primarily from review of previous and current expenditures for those high cost drugs which now require prior authorization before submitting claims for payment. For example, a 50 percent reduction in expenditures for Tordal, an analgesic drug, was noted between fiscal years 1994 and 1995 after prior authorization was mandated.

Drug Delivery System for Montana Medicaid Program

Summary

Based on department projections and information provided by program contractors, potential program expenses of approximately \$980,000 were averted for the \$27 million Medicaid pharmacy program. Projected costs averted by each program include:

-- Point of Sale Savings	\$ 308,701
-- Due Care Savings	270,053
-- Formulary Savings	400,000

The total annual contract costs for these cost containment systems are \$590,068.

Conclusion: Department Procedures have Contained Costs

*Department procedures are in place to contain costs in the
acquisition and delivery of drugs.*

Other Considerations

There are other factors which cannot be as readily measured; such as the differences in the type of population served and the need for accessibility for emergency and non-maintenance drugs. Accessibility and direct patient counseling are issues which impact the quality of service provided to Medicaid recipients. Outcomes such as keeping recipients out of the hospital or preventing a doctor visit are other areas which cannot be clearly quantified. Interviews with the Board of Pharmacy, industry officials, and pharmacy providers have indicated the current Medicaid delivery system ensures a quality delivery system and in the long run has more cost effective results.

Manufacturer Rebates

In addition to department cost containment measures, federal law established the Medicaid prescription drug rebate program in 1990. The purpose of the drug rebate program is to ensure Medicaid is charged a fair price for prescription drugs. It is common practice among drug manufacturers to give a discount to large purchasers of prescription drugs, such as hospitals. Since Medicaid is also a large purchaser of prescription drugs, federal laws mandated rebate agreements from drug manufacturers for states to receive cash

Drug Delivery System for Montana Medicaid Program

rebates for the cost of drugs dispensed to Medicaid recipients. This requirement went into effect January 1, 1991.

Only those drugs produced by manufacturers who have signed agreements with the federal Department of Health and Human Services are covered by Montana Medicaid. Paid claims history is used quarterly to invoice pharmacy manufacturers for rebates due. The department recorded rebates of over \$5 million in each fiscal year 1993-94 and 1994-95.

Would Mail Order be a Feasible Delivery Option?

The next step of our review was to compare costs of prescriptions between the Montana Medicaid delivery system and mail order delivery systems used for pharmacy services.

Other States Delivery System

The first area reviewed included examining systems utilized by other states to deliver prescription drugs. Using a phone survey, the following questions were posed to Medicaid program in other states:

Does your state reimburse for pharmaceuticals provided by a mail order pharmacy?

Do you mandate mail order for any types of drugs, i.e. maintenance medications?

States were also asked to provide any policy or guidelines related to mail order contracts and program evaluations completed on these programs. Thirty-eight states responded. Although 61 percent noted their program allows reimbursement for mail order prescription, 100 percent indicated mail order is not mandated.

Two states commented that past mail order systems were not completely successful and other delivery options will be considered in the next program year.

New York program officials stated a voluntary mail order prescription program was initiated in April 1991 but was terminated in March 1996 due to the declining number of recipients

Drug Delivery System for Montana Medicaid Program

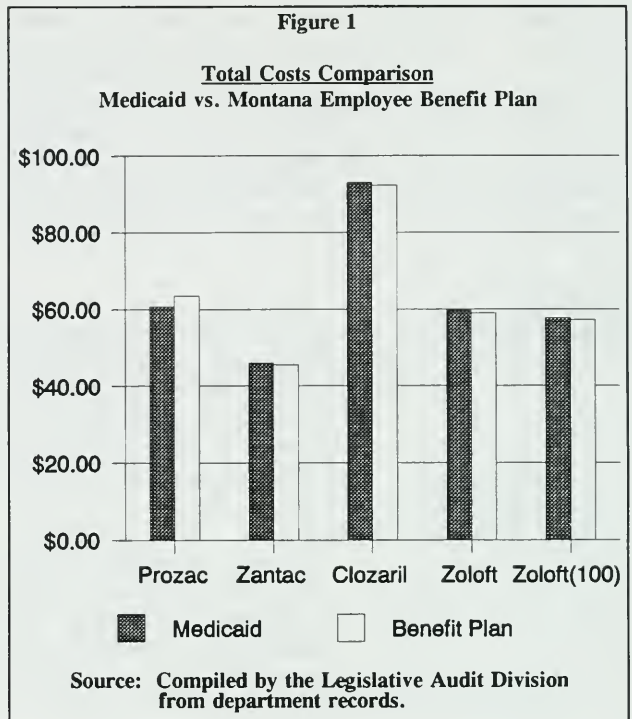
who took advantage of the program and lack of cost savings. They found Medicaid recipients pay the same co-payment regardless of prescription costs; therefore, there is no incentive for those recipients to utilize a mail order system. In addition, federal regulations ensure freedom of choice and restricts state programs from mandating use of one pharmacy without obtaining a federal waiver. Overall, most state officials noted a mail order system is not a good delivery system option for Medicaid.

Comparison to Other Delivery Systems

The next step of our review was to compare the current delivery system to other delivery systems used in this state. Currently one state program utilizing a mail order drug delivery system is the State of Montana Employee Benefits program. This program uses mail order for its maintenance drug delivery and a provider network for other drug deliveries. Other programs are in the process of establishing mail order delivery but limited historic data was available.

To compare prescription costs to the Employee Benefits program, we compared five similar drug prescriptions to determine if there were significant cost differences between the two programs. We selected drugs included in the top 20 prescriptions and received quotes for a prescription amount of 30 pills. The following table notes each prescription cost for both programs.

Drug Delivery System for Montana Medicaid Program



This cost comparison includes dispensing fees, rebates, etc. This data indicates prescription costs between the two programs appear comparable.

Conclusion: *Feasible but
not Necessary*

Based on our audit testing, we conclude another type of drug delivery system does not appear to be more cost effective than the current system.

Agency Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES
HEALTH POLICY & SERVICES DIVISION



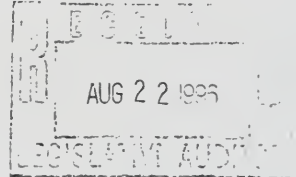
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August 21, 1996



Jim Pellegrini, Deputy Legislative Auditor
Legislative Audit Division
Room 135, State Capitol Building
Helena, MT 59601

Subject: Medicaid Transportation Services and Delivery System for Drugs

Dear Mr. Pellegrini:

Enclosed are the Department's responses to the recommendations pertaining to the Medicaid delivery system for drugs and Medicaid transportation services..

The Department concurs with the recommendations. The report and recommendations support the Department's efforts in efficiently managing these programs.

Thank you for your review.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael J. Blouke for".

Peter Blouke, Ph.D.
Director

Enclosures

cc Nancy Ellery

DELIVERY SYSTEM FOR DRUGS

RECOMMENDATION #1

Agency Response:

The Department concurs with the conclusion that the procedures currently in place contain costs in the acquisition and delivery of drugs. The Department developed the point of sale system, Due Care Program, and Drug Formulary Program to ensure the safe and cost-effective delivery of drugs to Medicaid recipients. These programs are modified regularly in response to increased understanding of pharmacy products and to changing patterns of use by recipients.

The Department also concurs with the finding that the State benefits from the drug rebate program. The Department will continue to pursue manufacturers' rebates aggressively.

RECOMMENDATION #2

Agency Response:

The Department concurs with the conclusion that another type of drug delivery system does not appear to be more cost effective than the current system. The Department will continue to investigate potential cost-saving measures for their effective application to the pharmacy program.

